

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (CHFFA)**

**FUNDING SUMMARY**

<b>Applicant:</b>	Palm Drive Health Care District (“Palm” or “Borrower”)	<b>Amount Requested:</b>	Not to exceed \$250,000 *
<b>Applicant Address:</b>	501 Petaluma Avenue Sebastopol, CA 95472	<b>Resolution Number:</b>	2008-12
<b>Date Requested:</b>	July 10, 2008	<b>Loan Term:</b>	No later than 45 days following the adoption of a 2008-2009 budget by the State of California
<b>Background of Financing:</b>	Many rural hospitals are facing unanticipated and staggering financial burdens associated with the anticipated State budget impasse and delayed Medi-Cal reimbursements; hence they are not receiving their regular Medi-Cal reimbursements. Consequently, Palm is seeking funding to bridge this financial gap in order to finance vital health services for its communities.		
<b>Purpose:</b>	Loan proceeds will be used to offset Medi-Cal reimbursements delays due to the State’s budget impasse.		
<b>Financial Overview:</b>	Based on the most recent audited financial statements, from FY 2005 to FY 2007 Palm has been continuing to maintain a deficit position, while operating losses have continued to grow. The large operating loss in FY 2007 appears to be directly related to the brief closure of Palm’s Intensive Care Unit in August 2006, which reopened in July 2007. Palm anticipates the reopening of its ICU will more than likely result in increased patient revenues to be reflected in their next audit. However, during FY 2007, Palm filed Chapter 9 bankruptcy and is in the process of implementing a reorganization and restructuring plan. Palm’s management staff is continuing a cost reduction and revenue enhancement program which they believe will improve future cash flows. Palm’s (-1.46)X debt service coverage ratio does not meet CHFFA’s 1.10X minimum requirement. This financing is expected to sustain Palm’s daily operations until the State budget passes.		
<b>Financing Structure:</b>	<ul style="list-style-type: none"> <li>▪ The entire loan balance shall be repaid in full no later than 45 days following the adoption of a 2008-2009 budget by the State of California.</li> <li>▪ Loan proceeds are to be disbursed on as-needed basis in a total amount not to exceed the hospital’s third-party-approved Medi-Cal claim.</li> <li>▪ Loan origination fee of 1.25%.</li> <li>▪ Possible reduction of the Authority’s 3% fixed interest rate.</li> <li>▪ Lien on gross revenues.</li> </ul>		
<b>Due Diligence:</b>	<p>Due diligence of the following items has been completed or will be completed prior to closing:</p> <ul style="list-style-type: none"> <li>▪ Religious Due Diligence</li> <li>▪ Legal Review</li> <li>▪ Community Service Obligation</li> <li>▪ CEQA/Seismic/Pass through (Not required)</li> </ul>		
<b>Staff Recommendation:</b>	Given the pending Chapter 9 bankruptcy and the Authority’s consultation with legal counsel, staff is not in a position to recommend the approval of this resolution.		

\* In addition, sum shall not exceed the maximum amount of Medi-Cal reimbursement ever received from the Department of Health Services over the course of the last three fiscal years for the same period of time the borrower now seeks to cover with Authority financing. Borrower will provide historical data demonstrating its Medi-Cal reimbursements for the last three fiscal years on or before the July 11<sup>th</sup> board meeting.

**Palm Drive Health Care District  
Statement of Activities  
(Unrestricted)**

	<b>For the year ended June 30</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b><u>SUPPORT, REVENUE &amp; GAINS:</u></b>			
Net patient service revenue	\$ 15,104,279	\$ 16,772,800	\$ 15,930,615
Other operating revenue	148,126	154,167	156,055
Total operating revenues	15,252,405	16,926,967	16,086,670
<b><u>EXPENSES:</u></b>			
Salaries and wages	8,689,182	8,230,128	7,943,361
Supplies	2,979,674	2,283,225	2,441,410
Professional fees	2,843,676	3,285,420	2,255,323
Employee benefits	2,599,106	3,001,251	2,863,776
Purchased services	1,433,563	1,648,742	2,102,286
Registry	1,161,425	1,355,204	989,522
Depreciation and amortization	808,051	772,205	725,348
Building and equipment rent	594,739	377,434	373,313
Other operating expenses	391,664	343,328	314,112
Utilities and phone	384,111	361,719	344,177
Insurance	292,453	205,045	233,139
Total operating expenses	22,177,644	21,863,701	20,585,767
Operating income (loss)	(6,925,239)	(4,936,734)	(4,499,097)
<b><u>NON-OPERATING REVENUES (EXPENSES):</u></b>			
District tax revenues	4,030,946	3,687,385	4,402,300
Investment income	31,646	39,996	39,998
Interest expense	(831,367)	(774,431)	(477,565)
Gain (loss) on sale or disposal of property	-	-	(206,852)
Grants, contributions and other	189,506	21,379	766,931
	3,420,731	2,974,329	4,524,812
<b>Change in unrestricted net assets</b>	<b>(3,504,508)</b>	<b>(1,962,405)</b>	<b>25,715</b>
Unrestricted net assets at beginning of year	(3,488,296)	(1,525,891)	(1,551,606)
Unrestricted net assets end of year	\$ (6,992,804)	\$ (3,488,296)	\$ (1,525,891)

**Palm Drive Health Care District  
Statement of Financial Position**

	<b>As of June 30</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b><u>ASSETS</u></b>			
Current Assets:			
Cash and cash equivalents	\$ 346,272	\$ 297,242	\$ 1,113,099
Restricted trust funds available for current debt service	529,509	588,477	587,497
Patient accounts receivable, net of allowances	3,160,866	3,084,568	2,574,055
Grants and other receivables	142,733	347,067	2,861,713
Inventories	409,097	416,699	111,343
Prepaid expenses	241,857	134,670	113,419
<b>Total Current Assets</b>	<b>4,830,334</b>	<b>4,868,723</b>	<b>7,361,126</b>
Assets limited as to use	424,256	125,249	951,446
Capital assets, net	9,365,656	9,595,508	10,097,225
Bond issue costs, net of accumulated amortization	326,526	340,754	354,982
<b>Total Assets</b>	<b>\$ 14,946,772</b>	<b>\$ 14,930,234</b>	<b>\$ 18,764,779</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>			
Current Liabilities:			
Bank line of credit	\$ 1,254,493	\$ -	\$ -
Current maturities of debt borrowings	713,793	450,000	465,000
Accounts payable and accrued expenses	1,365,774	1,721,563	2,642,697
Bankruptcy payables	2,899,368	-	-
Accrued payroll and related liabilities	689,698	640,513	945,121
Refundable advances	9,064	49,089	-
Estimated third party payor settlements	71,568	158,061	252,850
<b>Total Current Liabilities</b>	<b>7,003,758</b>	<b>3,019,226</b>	<b>4,305,668</b>
Deferred property tax revenues	178,705	209,304	345,002
Debt borrowings, net of current maturities	14,757,113	15,190,000	15,640,000
<b>Total Liabilities</b>	<b>21,939,576</b>	<b>18,418,530</b>	<b>20,290,670</b>
Net Assets:			
Invested in capital assets, net of related debt	3,684,750	3,890,508	4,292,225
Restricted, by bond indenture agreements and other	893,463	713,726	1,538,943
Unrestricted net assets (deficit)	(11,571,017)	(8,092,530)	(7,357,059)
<b>Total net assets (deficit)</b>	<b>(6,992,804)</b>	<b>(3,488,296)</b>	<b>(1,525,891)</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 14,946,772</b>	<b>\$ 14,930,234</b>	<b>\$ 18,764,779</b>

**FINANCIAL RATIOS:**

	<b>Proforma (a)</b>			
Debt Service Coverage (x)	<b>(1.46)</b>	<b>(1.46)</b>	<b>(0.34)</b>	<b>0.62</b>
Debt/Unrestricted Net Assets (x)	<b>(2.75)</b>	<b>(2.75)</b>	<b>(2.94)</b>	<b>(4.00)</b>
Margin (%)		<b>-18.77%</b>	<b>-9.86%</b>	<b>0.12%</b>
Current Ratio (x)		<b>0.69</b>	<b>1.61</b>	<b>1.71</b>

(a) Recalculates 2007 audited results to include the impact of this proposed financing.